March 2004

Insurance Security Services

The Eyes and Ears of the Insurance Market

IN THIS ISSUE

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ERISA! ARRESTS AT LAST

We have been writing for a decade and a half about a string of bent companies that started with **Dai Ichi Kyoto Re**, and only last year ran to Centennial I C, who have been involved, in succession, in the crookery in Texas, where AHHA (**American Heartland Healthcare Association**) has used them to draw in many millions in premiums for the conspirators to play with. In the last six months, we travelled to North Carolina to give evidence at one of the cases arising out of this fraud, and have filled many, perhaps too many, pages with details of the scam. There have been the normal number of libel threats, and correspondence suggesting we got it all wrong. Well, if we did, so did the FBI, the Texas Insurance Dept, the IRS and the Department of Labour. (It's spelt Labor in American). And, as long expected, (we couldn't tell you because of subpoena's) arrests have been made, and extradition sought. This happened on Thursday the 25th of March, and there are some things still sub judice. The Press Release says:-

EIGHT INDICTED IN MULTI-MILLION DOLLAR EMPLOYEE HEALTH CARE INSURANCE FRAUD SCHEME

Six Arrested in Texas, Florida, Oklahoma and Tennessee Two to be Extradited from U K. *Continued on page 2*

HCC SELLS EMPLOYEE CARE

Steven Way has brought his **Houston Casualty Company** a long way since the days of aviation broking and a period at **Robert Bradford Hobbs Saville**, the Lloyds broker at the centre of it, which he was unable to rescue. More recently, he bought a Lloyds broker, **Rattner Mackenzie**, to act for him in placing reinsurance of the book of workmens comp he was writing in Texas. *Continued on page* 17

PCI SUCCESSOR MAY BE MGU

Last century (less than a decade, but that phrase is much better) we devoted many happy hours and pages to the crooked goings on at and around **Provident Capital Indemnity**. Domiciled in the Dominican Republic, but run from Costa Rica, it claimed capital it didn't have, forged its accounts, and frequently failed to pay claims. *Continued on page 10*

ABOUT OUR PUBLICATIONS

Insurance Security Services Newsletter: A monthly publication that provides the most detailed coverage anywhere of the fringe market - the companies and the people who short change their trading partners. We also provide an overview of the world insurance market, balance sheet analysis, and provide information specially tailored to the security committee on law, pollution and the developments at Lloyds

Insurance Insolvency Newsletter: A monthly publication which covers developments in insurers and intermediaries which are in either solvent or insolvent run-off or have simply ceased underwriting. We cover litigation, assets, prosecutions, likely payouts and developments in the law

Register Of Insurers Ceased Underwriting: Over a thousand pages of reports on insurers, pools, exchanges, intermediaries and RRG's worldwide. Details are given of who to contact what the position is and an estimate of how much you will receive and when. Great as a guide for bad debt provisions.

Information at your finger tips The last sixteen years of the ISS newsletters on disk. Over seven thousand pages complete with an index to the important name. 10,600 of them!

When new names and operations come to your attention, you need to know the background. With our help, you can have access to what you need to know to understand the situation. Like what led them to where they are now?

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TALES FROM THE FRINGE

ERISA. ARRESTS AT LAST

Continued from page 1

United States Attorney Michael Shelby announced the indictment of eight men from Houston, TX, Florida, Tennessee and the United Kingdom for their roles in a scheme to allegedly defraud millions of dollars of premium payments from employee health care benefits programs established for employees by their employers throughout the United States. **Jack Ferguson**, 36, China Spring, TX; Milt Wilkinson, 59, of Houston, TX; John Claro, 52, an attorney from Oklahoma City, OK; **Gary Hoskie**, 54, of Ft. Pierce, FL; **Scott Glidewell**, 34, and **Jim Glidewell**, 64, both of Memphis, TN; and **Mike Reeve**, age unknown, and **Euan McNicoll**, 41, both citizens of the United Kingdom, are charged in a 54 count indictment with conspiracy, mail fraud and money laundering.

Following the unsealing of today's health care fraud indictment, United States Attorney Michael Shelby said, "Today's indictment brings to light a fraud of unimaginable proportions that victimized thousands of working men and women across the United States and the small businesses that employ them. We are committed to using all the law enforcement resources of the federal government to identify, arrest, and hold accountable anyone who attempts to profit by exploiting the vulnerabilities of others."

Ferguson and Wilkinson were arrested this morning by agents of the Federal Bureau of Investigation (FBI) in Houston and are expected to appear in federal court this afternoon for their initial appearance. FBI agents have also arrested Hoskie in Ft. Pierce, FL, Scott and Jim Glidewell in Memphis, TN, and John Claro in Oklahoma City, OK. Each will make their initial appearances in the federal court in the district of arrest. The United States will seek the extradition of Mike Reeve and Euan McNicoll.

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The indictment returned under seal by a federal grand jury on March 25, 2004, and unsealed this morning following the arrests, alleges that between 1996 and September 2003, these individuals fraudulently obtained more than $45 million in premium payments from employees and their employers by representing to them that all their healthcare claims would be paid under "Reinsurance Agreements" with more than six offshore reinsurance companies. In the end, more than $13 million in claims were not paid, leaving thousands of American employees without health care insurance.

Ferguson and Wilkinson operated in Houston, Texas, between 1995 and 2003 as American Heartland Healthcare Administrators, also known as AHHA, and Southern Plan Administrators, also known as SPA. Scott Glidewell and Jim Glidewell, both licensed insurance agents, operated in Memphis, Tennessee, as Client Development Services and Mid South Benefits Group. Gary Hoskie operated in Ft. Lauderdale, Florida, as **Professional Consultants and Managers** and as **Professional Insurance Consultants.** Euan McNicoll operated from Scotland and Mike Reeve operated from London, England, under the name **St. John Management Services, Ltd.** McNicoll and Reeve purported to be intermediaries for various offshore insurance, reinsurance and bonding companies. **John Claro**, an attorney in Oklahoma City, Oklahoma, helped incorporate or locate the offshore insurance companies used in the scheme and led state and foreign insurance regulators to believe that the AHHA program was not subject to state insurance regulations because it was a "Single Employer Self Insured **ERISA** Plan." According to the indictment, the charged individuals and their agents targeted small business employers and Professional Employee Organizations (PEOs) throughout the United States, including Texas, Oklahoma, Mississippi, Florida, Tennessee, North Carolina, South Carolina, Colorado, Arkansas and Alabama. Employers were told that they were paying premiums for an employee health insurance plan that was "just like regular insurance," that would assume all the risk of the employer, and would be "100%" or "first dollar" coverage. The defendants represented to employers that since the offshore reinsurance companies did not have to comply with expensive state regulations, the health care premiums would be lower than the premiums required by insurance companies based in the United States. The defendants promised the employees and employers that they would administer their insurance claims and manage funds representing insurance premiums and insurance claims proceeds.

However, those offshore insurance companies were not authorized to engage in the insurance business in any state and were either fraudulently or insufficiently capitalized. Ultimately, thousands of American employees of small businesses had millions in unpaid health care claims and were left without health insurance.

If convicted of the conspiracy charge or the substantive money laundering charges alleged in Counts 1 and 38-54, or the Mail Fraud charge alleged in Count 6, the defendants faces a maximum punishment of 20 years in federal prison without parole. If convicted of Conducting Transactions with Criminally Derived Proceeds as alleged in Counts 7-37, the defendants face a maximum of 10 years imprisonment without parole. The Mail Fraud charges alleged in Counts 2 - 5 carry a maximum penalty of 5 years in federal prison without parole.

The investigation leading to this indictment was conducted by the Department of Labor Employee Benefits Security Administration investigators in Dallas, Texas, and Atlanta, Georgia, the Texas Department of Insurance, and the Houston offices of the Internal Revenue Service - Criminal Investigation and the Federal Bureau of Investigation. The case will be prosecuted by Assistant United States Attorney Mary Jane (Suzie) Harmon. An indictment is a formal accusation of criminal conduct, not evidence. A defendant is presumed innocent unless and until convicted through due process of law.

INDICTMENT SUMMARY

All eight defendants are charged in each of 54 counts in an indictment which charge the defendants with Conspiracy to Commit Mail Fraud, Wire Fraud and Money Laundering (Count 1); Mail Fraud (Counts 2 - 6); Conducting Transactions with Criminally Derived Proceeds (Counts 7-37) and Money Laundering (Counts 38 - 54). An indictment is a formal accusation of criminal conduct, not evidence. A defendant is presumed innocent unless and until convicted through due process of law.

Specific Allegations Contained in the Indictment:

Jack Ferguson, operated in Houston, Texas and has been the president and majority owner of Third Party Administrators ("TPAs") named American Heartland Health Administrators (AHHA) and AHHA's successor, Southern Plan Administrators (SPA) since 1996.

Milt Wilkinson operated in Houston, Texas. Wilkinson began working in the marketing department at AHHA in 2000. Wilkinson was the Director of National Marketing and was allegedly responsible for providing information on AHHA's business program to clients (employers and PEOs). In 2001, Wilkinson became a "consultant" for North American Indemnity, one of the offshore reinsurance companies.

Gary Hoskie, operated in Fort Pierce, Florida under the name of Professional Consultants and Managers, Inc. ("PCM"). Later, Hoskie set up another company, Professional Insurance Consultants, Inc. ("PIC") in Florida. Hoskie allegedly received insurance premiums from AHHA/SPA and purportedly provided the insurance premiums to overseas insurance companies.

John Claro is an attorney in Oklahoma City, Oklahoma, who helped incorporate or locate the offshore insurance companies used in the scheme. Jim Glidewell and his son, Scott Glidewell, licensed insurance agents operating in Memphis, Tennessee as Client Development Services ("CDS") doing business as Mid-South Benefit Group ("MSBG"), allegedly sold or marketed and trained other insurance agents to market and sell the AHHA Program to Employers from 1997 through 2003 and were paid a commission, or a percentage, from the funds received from Employers. Mike Reeve, a citizen of the United Kingdom, operated in London, England. Reeve was a majority owner of St. John Management Services, Ltd., and allegedly collected insurance premiums on behalf of **MarkeTrends**, **Centennial (CIC)** and **Cosmos**. Euan McNicoll, a citizen of the United Kingdom, who operated in Scotland. McNicoll as a partial owner of **First Fidelity** and **North American Indemnity**, allegedly served as an intermediary for First Fidelity, **Merrion**, **United Fidelity**, and MarkeTrends.

The Alleged Scheme

Jack Ferguson, and others under his direction and control, has operated as a Third Party Administrator (TPA) under the name American Heartland Health Administrators (AHHA), an Oklahoma corporation, since 1996 from locations in Houston, Texas. AHHA declared bankruptcy in 2003, but Ferguson had already formed **Southern Plan Administrators** (SPA), doing business from the same location, in 2002 as a result of negative publicity generated by AHHA. Ferguson, Wilkinson, and others, solicited employers and PEOs and represented to them that AHHA/SPA would obtain an insurance or "reinsurance" company to provide "first dollar" coverage for the health insurance needs of their employee benefit plans. The employer paid premiums to AHHA/SPA, which were deposited into one or more of AHHA's/SPA's accounts at Bank One in Houston, Texas. AHHA/SPA typically kept approximately 30 percent of the premium money for its services, and supposedly wired, by interstate bank wire, the remainder of the premium money to the insurance company or its designee.

Ferguson, John Claro, Hoskie, Reeve, and/or McNicoll created or located entities, all of which were insurance companies registered off-shore. None of these insurance companies were authorized to engage in the insurance business in any state in the United States. Ferguson and/or Claro represented to insurance agents, employers, and PEOs, in numerous

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states throughout the United States, including the state of Texas, that these insurance companies would pay, and were financially able to pay their claims.

Beginning in approximately 1996, Hoskie, Reeve and McNicoll acted as brokers or otherwise provided Ferguson, Claro and Wilkinson with the insurance companies, in return for a percentage of the premiums. These insurance companies utilized accounts including, but not limited to, one or more bank accounts controlled by Gary Hoskie, a self-described "international reinsurance broker", doing business under the name Professional Consultants and Managers, Inc., among other business names. Professional Consultants and Managers, Inc. operated from Hoskie's residence located at 1706 Surfside Drive, Hutchinson Island (Fort Pierce), Florida.

Defendants are accused of having falsely represented and pretended to the Employers that the following Insurance companies, which were formed, owned, or brokered by McNicoll, Claro, Reeve, and Hoskie, and others, would and could provide the insurance services AHHA promised. The insurance companies were administered by Ferguson and Wilkinson acting as AHHA/SPA on or about the following dates:

a. November 1995 - November 1996: First Fidelity was incorporated in Belgium and created by McNicoll and another individual in or about November 1995. All but one share of the stock in the company was held by an Arizona Corporation. First Fidelity had $695,000 in unpaid claims when it was replaced by Merrion Insurance Company;

b. January 1, 1997 - 1999: Merrion Reinsurance Company, Ltd. was incorporated in Ireland, with offices in Brussels, Belguim, London, and Dublin, and was brokered by McNicoll. Merrion left $2.2 million in unpaid claims when it was replaced by United Fidelity;

c. November 1, 1999 - September 2000: United Fidelity was chartered in the Cook Islands in 1995 and was brokered by Hoskie, Reeve and McNicoll. United Fidelity was a surety bonding company whose unaudited assets were held in a trust account at an offshore bank. United Fidelity was replaced by North American Indemnity in September 2000;

d. September 2000 - August 2001: North American Indemnity NV (NAI) was a corporation domiciled in Brussels, Belgium, formed on October 27, 2000, by McNicoll and another individual, both residents of Scotland. NAI's financial statements were provided to AHHA in the Dutch language and the audit by outside auditors, KPMG, was not provided to AHHA in English until March 2001. Those financials revealed that NAI's primary assets was stock in March Investment Corporation in the Bahamas, and was incapable of valuation by the auditors. NAI stopped paying claims by the summer of 2001, leaving approximately $4.8 millions in unpaid claims. NAI was replaced by MarkeTrends.
   On October 31, 2002, the Texas Department of Insurance issued an Emergency Cease and Desist Order, No. 02-1129, against NAI, McNicoll, and Anderson for, among other things, engaging in the unauthorized business of insurance;

e. September 1, 2001 - October 2002: MarkeTrends was a Republic of Cyprus corporation brokered by Reeve and Hoskie. MarkeTrends stopped paying claims in within the year, leaving approximately $5.9 million in unpaid claims. In November 2002, the Texas Department of Insurance issued an Emergency Cease and Desist Order, No. 02-1128, against MarkeTrends for engaging in, among other things, the unauthorized business of insurance, and was replaced by Centennial Insurance Company, known as CIC;

f. October 2002 - January 2003: Centennial was registered in Aruba in August 2002, and brokered by Reeve and Hoskie. Centennial stopped paying claims effective January 31, 2003 "due to nonpayment of due premiums."

g. January 17, 2003 - March 13, 2003 - Cosmos Insurance Company Ltd. was incorporated in Cyprus. On March 13, 2003, Cosmos informed Ferguson and Reeve that Cosmos was declaring "null and void: its agreement to "Reinsure[e] in respect of ERISA Health Care Plans as administered by Southern Plan Administrators, Inc. of Houston, Texas, U.S.A.", "from the date of inception" stating as reasons, "your failure to comply with the Terms & Conditions of the Reinsurance Slip dated 17 January 2003 and the withholding on your part of vital information from the Texas Department of Insurance pertaining to this business."

During the course of the conspiracy the indictment alleges that the defendants would and did fraudulently induce Employers to pay premiums, intended to insure the payment of the health care claims of thousands of workers and their families living and working in the United States, in the amount of more than $45 million. An indictment is a formal accusation of criminal conduct, not evidence. A defendant is presumed innocent unless and until convicted through due process of law.

ABTA FRAUD

ABTA, the travel agents' body that prides itself in protecting consumers from holiday rip-offs, has suspended its legal director after accusing him of defrauding it of more than £lm.

Riccardo Nardi, one of the Association of British Travel Agents' most senior executives, is claimed to have taken the money over a period of nine years.

Nardi, who drives a Porsche Boxster and lists one of his hobbies as "buying my wife new shoes", yesterday refused to comment on allegations.

Abta is suing to recover the money, accusing him of "fraud, misrepresentation and/or breach of fiduciary duty and/or knowing breach of trust". Nardi's bank accounts, and those of his wife Samantha, have been frozen by the High Court. Abta has also asked the court to prevent the sale of his house in the Bedfordshire village of Pulloxhill, and two cars, the Boxster and his wife's BMW X5.

It is understood the association is claiming £960,000 from Nardi and £265,000 from his wife, although she is not accused of any dishonesty.

The case has stunned travel bosses. Nardi, 36, was regarded as one of the industry's sharpest legal minds. He has been Abta's legal director since 1996.

His reputation was of a smart family man without a flamboyant lifestyle. Ironically, it was only last year that Nardi was asked by Abta to root out fraud against its members. In an interview with a trade publication he raged against the police and the Serious Fraud Office (SF0) for having "totally failed" to tackle the problem.

He also took a prominent role in a high-profile Abta case last year involving a string of travel agency failures that had cost consumers and other companies £1.9m. Nardi said at the time the case had "cost us [Abta] a fortune and we are aiming to get it back".

Abta has jealously guarded its reputation as a bastion of consumer protection. Its membership includes nearly 7,000 travel agencies and 1,000 tour operators. More than 90% of the UK's package holidays are sold through Abta members. In its last annual report it said that financial protection was "the core of what Abta stands for".

"Even though Abta is not alone in providing financial protection," it added, "the public perception is that it is the main, if not the sole, financial protection body. It is one of the main reasons that the public look for the Abta logo when booking their holidays."

The claim against Nardi has shaken the association. "Abta has a well-earned reputation for combating fraud. The civil action promptly taken to safeguard the position is another example of our determination to maintain that reputation," a spokesman said.

The alarm bells started ringing at Abta at the start of the month. A claim from a holiday company for a refund from a failed travel agency was seen to be bogus. Other claims by the same company were checked and found to

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be fictitious. The Metropolitan police were called in February, and Abta called a crisis meeting of its directors and senior managers at its central London offices 10 days later.

The civil action for damages against Nardi was started the same day. Abta has retained Trevor Sears, a partner at London law firm Davenport Lyons, a specialist in travel claims, to pursue the case.

To add to its embarrassment, and evidence that the scam was well concealed, the association's claims system was given a clean bill of only last year. Ian Reynolds, Abta' s chief executive, told a trade publication: "We were audited as recently as last summer. It was found the accuracy of claims payments was of a very high standard, with no material errors."

If the timing of their allegations was correct, Nardi was carrying on his self-enrichment whilst this audit was carried out. The ultimate in self-confidence.

Abta buys bonds of close to £350m to provide payment in case a tour operator or travel agency fails. In 2001, the most recent year for which figures are available, it paid out £2.2m for collapsed travel agents and £90,000 for tour operators.

The association's name is still widely linked with consumer protection, but this is now mostly undertaken by the Civil Aviation Authority, a government agency. Buyers of package holidays are protected by the CAA's Air Travel Organisers' Licensing (Atol) scheme which will repatriate and refund holidaymakers if a company goes bust. A series of tour operator collapses have left the Atol fund heavily in the red. It was, in effect, self insuring as a mutual fund, and got its premiums (levies) wrong. As it doesn't have a year end cash call system to make up the difference, it could have problems.

The uncovering of the alleged fraud caps a difficult period for Abta. Some of its largest company members are unhappy about the organisation's attitude to MyTravel, one of Britain's leading holiday companies, which hit financial trouble last year. Its rivals wanted Abta to take a tougher line.

"This is the straw that could break the camel's back. When we had the dispute over MyTravel, we were assured Abta had the systems in place to make sure that financial protection was ensured," said one travel executive.

If the guy in charge of security turns out to have been on the fiddle, it will be a bitter fruit.

BONDING OR BONDAGE?

Insure Financial Services Ltd. say they can arrange bonding up to $2.5 billion, or even as low as $1m. When you look at who is providing it, a wondrous fantasy jumps out of the box.

Dip into their website (but be sure to wash well afterwards):-

Providing Secure Trust Transaction to the Global Bancorp Group of Companies

Message from the Board of Trustee(s)

In the year 2003 LibertyOne, KAPAB, National Sales Corp, CFI, CHGC Europe, Beneco USA, The Dussel Group, Robitius Limited, AMBANC Financial, Freedom Exchange, The Depot and many others decided to come together for the purposes of building a structure that would facilitate the vast holdings of corporations, non-profit institutions, banks, mortgage lenders, real estate companies, developers, commodities companies, and many others.

Global Bancorp Trust as an unincorporated business trust has more than 400 members globally and holds their assets under management for the purposes of creating liquidity for community and economic development.

As a trust Global Bancorp Trust owns itself (sic*) more than five (5) banks and financial institutions worldwide, but does not itself participate in banking directly, in order to maintain its autonomous status. Transactions and projects are facilitated through its member banks, brokerage firms, community development financial institutions and others.*

Our main purpose is to create liquidity and maintain reserves for our members globally. In

essence Global Bancorp Trust acts as Central Liquidity Facility and Capital Reserve Depository for members to create capital for economic and community development.
Furthermore, what makes Global Bancorp Trust unique is that we work directly with major financial institutions as partners and affiliates, because we are not in competition with anyone. Our goal is not profit oriented, but task oriented in terms of serving people worldwide.
We are inviting hundreds of organizations worldwide to joint us in becoming a solid partnership in order to reverse the financial destruction that has consumed financial markets on a global scale. To manage our market risks, Global Bancorp Trust utilize secure governmental instruments, gold and silver reserves to underwrite its activities and the activities of its members.
In the year 2003, Global Bancorp Trust anticipates implementing through its CDFI Coalition, a Bank Partnership Program that will attract more than 1,000 banks, mortgage lenders and community development financial institutions worldwide in working with us to achieve our goals and objectives for building communities and serving people worldwide.
With Warm Regards
01/10/2003 http://www.incz.net/GBTrust.htm
Board of Trustees

Then they go on to describe how all this magic is to be achieved.

Our Products and Services

Capital Reserve Depository
Central Liquidity Facility
Wholesale Brokerage and Securities Lending
CDFI Coalition Program
Housing Development Program
MoneyCard Program
Capital Reserve Depository
Global Bancorp Trust, because of its status is not limited in its power to contract with banks, mortgage companies brokerage firms and many other type of financial institutions, including governmental agencies. We have create the benefit of our member institutions a Capital Reserve Depository, or in essence of Reserve Bank that provide them with the necessary cash reserves to create capital for the purposes of community and economic development. Our Capital Reserve Depository is structured around the requirements of the Federal Reserve Bank, FDIC, the ACCORD, CENTRAL BANKS and other accepted financial standards worldwide. Our accounting procedures are stricter for our members and we make sure they maintain a reserve capital at least 5% more than the actual standards.
As a member institution, Global Bancorp Trust opens an account with our Central Depository Institution American Bank Trust for the purposes of providing your institutions with additional declared capital reserve essentially become your reserve partner not your competitor

Central Liquidity Facility.
Central Liquidity Facility is modeled after the US government based Central Liquidity Facility created to establish wholesale lending facility for credit unions located in the United States. Our goal is to provide our member financial institutions and others access to leveraged capital in order to meet their financial needs in com development and economic development. Our entire program is managed through AMBANC Financial local Jacksonville, Florida. All of our member institutions are inter-connected through Global Lending System.

Wholesale Brokerage and Securities Lending
In the arena of wholesale brokerage products and services Global Bancorp Trust is creating unique opportunity itself and members since it principal objectives are not centered around profit making, but capital creation and maintenance for its members. Liberty Assets Securities as our Principal Brokerage Firm is responsible for pro all of our members, affiliates and partners with products and services.
We provide our members with underwriting, placements, trust services, registration, transfer agent, services, trustee services, cash

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management, margin lending and other related services.
All client accounts are maintained through First American Bank Trust in association with Liberty Asset Securities

CDFI Coalition Program
The CDFI Coalition Program is by far our most important and advantageous program, because its goal and objective is to create a partnership with banks, mortgage companies, governmental agencies, and common development institutions. Becoming our CDFI Coalition Partner means that Global Bancorp Trust invests reserves in your institution, while opening a Community Development Financial Institution with the member.
Purposes of meeting the requirements of the Community Reinvestment Act in the United States and the Eco Development Plans of countries worldwide.
Under the CDFI Coalition Program, Global Bancorp Trust does not take equity in your institution, but we scrutinise our investment by implementing cohesive management plan that will assure the member institution will operate under safe and sound banking practices as prescribed by governmental regulators.

Housing Development Program
Global Bancorp Trust is implementing our housing development program in inner cities and rural communities in the United States and every member country.

MoneyCard Program
MoneyCard International was created by WorldAlliance in the year 2001 for the purposes of distributing Reserve Currency, electronic currency backed by gold and silver bullion via a "Stored Value Debit Card". As they evolved, WorldAlliance changed its plans to expand the offerings of the company to include cards issued by MASTERCARD, VISA, AMERICAN EXPRESS along side of its debit cards, credit cards, stored value cards, gift student cards, money orders, cashiers checks and other types of negotiable instruments. *MoneyCard are offered through its member institutions as well as offered directly by MoneyCard itself.*

MoneyNetwork
The MoneyNetwork was created to serve as an Electronic Funds Network, ATM and POS network for the MoneyCard issuers, acquirers and clients worldwide. Centralized in Stone Mountain, Georgia we connected to other Networks all over the world via our network access partners.
We expand our services by providing our members with global telex, money transfer, ACH, FEDWIRE, SWIFT and other similar services that are restricted from using unless they become members of that particular network.

Marketing and Public Relations
Global Bancorp Trust through its affiliate Diversity Media Inc., provides graphic design, digital printing, relations, marketing and many other creative services to accommodate their business development within communities and globally.
For More Information on our individual programs please contact: (786) 425-0072 or 1-866-447-FABT, Memb Department.
The Global Bancorp Strength is Built on Integrity through our world alliance of financial institutions
Financial Strength you can count on

On one finger we would assume. Wonderful, high faluting stuff, but nobody has heard of them. Basically, give them your money, they'll give you back much more that you gave them, and you can have the warm feeling that they are out there helping the underprivileged. But they're out there selling bonds.

INSUREUROP LTD

INSUREUROP is another company flogging dodgy bonds. It has maildrop addresses in London's West End, at one of which the receptionist thought we were the fraud squad, who had rung to say they were coming.

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Millions in bonding capacity is promised, and then you get to hear where it is going.

PREFAC REVENUE BONDS
***First International Guarantee Trust** works in co-ordination with Global Petroleum Investment and has made available a financial program designed to support a series of assets such as natural resources that are normally difficult to raise funds on/in traditional markets.*
Not really that surprising. Nobody wants to have to take a shovel or an axe to get their money when they have a claim. Having said that, an axe isn't such a bad idea with some insurers. Hmmmmm....

In the oil industry, First International Guarantee Trust has coordinated through its affiliates such as Global Petroleum Investments, Insur-Europe Limited the ability to coordinate the funding of feasibility studies, construction and selection of operators directly with the principals of the properties, either individuals or government officials.
Our group has over 150 years of combined senior international management experience in finance, oil, insurance, banking, communications, software, transportation and national debt restructuring. This group as brought a creative solution to an old problem. We call it – PREFAC REVENUE BONDS, or PRBs.

Executive Summary
PREFAC REVENUE BONDS: gives First International Guarantee Trust the ability to capture assets, and leverage to raise critical capital to place the asset into a final bankable or operating position.

GUARANTEE BASIS / not best effort : First International Guarantee Trust enters into an agreement on a guarantee basis not best efforts. Everything project is pre-funded, with a guaranteed take out on day of issue.

CLOSED LOOP SYSTEM: First International Guarantee Trust writes the bond and sells the bond, co-ordinates the feasibilities to final operating management selection.

ALLOWS BETTER CONTROL: First International Guarantee Trust or its affiliates enters into partnering agreement with the principals and maintains that relationship for the life of the operating entities in most cases.

OVERVIEW OF STRUCTURE: Principal and First International Guarantee Trust and or affiliates entered into a joint venture agreement, the PREFAC revenue bond are underwritten and purchased to accomplish the joint venture objectives. First International Guarantee Trust and or affiliates maintains a ownership position in the asset, commodity and continues to raise capital and keep the joint venture partners in a secure position for the life of the entity.
CAPACITY UNLIMITED: First International Guarantee Trust has the capacity to handle a minimum of $5,000,000 monthly potential revenue streams and above.
In Today's environment there are few guarantees become a partner with GPI to guarantee your future.
Contact GPI today: GPI@incz.net
Government Projects: GGPI@incz.net
The ground is becoming thick with them.

PCI SUCCESSOR MAY BE MGU

Continued from page 1
Its controller, **Harold Maridon**, did a plea bargain on charges of advance fee frauds in Omaha, skipped on the deal, and whilst later overflying the US, was taken so seriously unwell that the plane had to land. He woke up in a hospital, with FBI agents at his bedside. Having served his time in prison, he was soon back in Costa Rica, running the same old scams. And still defrauding people.
For many years PCI has written "Cashback" bonds, used in a variety of ways to promote other, often dodgy, schemes. One of these is

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linked into a holiday homes share scheme. One victim couple wrote to the Daily Telegraph:-

While on holiday in Spain in 1997, we paid £1,700 to become members of Club Class Holidays, an outfit promising access to discounted holidays. Lifestyle Holiday Clubs Limited, the marketing company through which we signed up, told us that our money would be invested and that we would get the sum back after 54 months if we registered with Provident Capital Indemnity Limited.
We duly registered and received what appeared to be a cash-back cheque with redemption instructions. When the 54 months had passed, we attempted to claim our money back. We sent all the required documents by registered post to Provident Capital's agent, TIM, at 116 Gloucester Place, London W 1, but they were returned to us as undeliverable. Do you know of any change of address for this company?
John and Sandra Hartshorne, Stafford

The Telegraph replied
The Timeshare Consumers Association (TCA) says that it has never been able to find out who is behind Provident Capital. "It has certainly never been registered as a company in the UK," said a spokesman for the TCA.
The association did come across a telephone number for Provident Capital in Brussels, but there was no response when it was tried. It also uncovered a mailing address at 223 Regent Street in London, but that turned out to be an office accommodation service for individuals and companies that just need an address and a postal drop facility.
The TCA says it has yet to learn of anyone who has obtained their investment back under schemes such as this. "About 70 per cent of what the customer pays for these holiday clubs goes to the marketing company that sells the product," said the TCA spokesman. "The rest goes to the holiday club, in this case Club Class Holidays (CCH)."
According to the TCA, Lifestyle Holiday Clubs Limited, the marketing company through which you originally purchased your membership of CCH, also appears to be no longer in business. Readers who are visiting Tenerife or the Costa del Sol this summer should be aware that another marketing **it** *company - Incentive Leisure Group is active in selling Club Class Holidays products in these areas. AlthoughCCH is said to be acquiring timeshare units for rent to its members through resale companies, it is effectively a travel agent arranging hotel and apartment accommodation at the best price it can find a price that you can often match yourself or find through any accommodation booking agency, without having to pay thousands of pounds to join the club.*

We could tell them where PCI is. In fact we just have. There isn't much chance of getting your money back, but at least you will know where to vent your spleen. The address in Brussels was broker, and they soon withdrew when they found PCI's history backfiring on them.
So PCI hasn't changed its ways. The whole beauty of Cashback is, even if you do comply with all the fine print on the back of the bond, they'll all be long gone by the time you are entitled to your cash back. Some of its own cash seems to have moved on. The original capital was supposed to be $85m of certificates of deposit in a non existent Hong Kong bank. The places it was stashed seemed to move around, but in the end, when we got to know the guy who had provided these assets to PCI, we persuaded him to sever connections with it. Legal documents were drawn up and signed, returning the paper worth £85m, and causing PCI to have Dominica value its holding in Costa Rica at $85m, and PCI holdings on Costa Rica value its ownership of Dominica at $85m. A nice cosy relationship that allowed both companies to claim $85m worth, and could not be investigated. No auditor would accept it, so they simply printed their own audit on a copy of the genuine auditors paper, without telling them.
Hey, don't lets get picky. As some historical wise man said, "If you will the end, you must will the means."

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The Canadian "asset" provider wasn't done with insurance companies. The "underwriting director" of PCI, **Grahame Sanders**, had to be taken off the heading quickly, when he went to jail in Kentucky (for a different fraud than the one they did Maridon for). When he came out, he moved to England, and soon, with fresh help from Canada, was setting up an insurance company in the Solomon Islands. Called **International Unity**, which sounds like a religion. Anything rather than sound like an insurance company.

He, and two brothers, Paul and **Alex Chin**, persuaded **Alan Pawsley** to use Int. Unity through Pawsley's **IUI** agency in Australia.

This, as we reported a couple of years ago, did not go well. The Australian authorities cracked down on the use of unauthorised insurers, and even the Solomon Island regulators raised questions and delayed licencing until the whole thing became a lost cause.

Pawsley got out of insurance, and went into the restaurant business. Before the ultimate debacle, we are told, the Canadian end was asked to provide $500,000 in a bank account in Melbourne, so that auditors and regulators could see and feel real money, and become believers. We are told it was provided, was going to be held in a joint signature account, but, you've guessed it, wasn't. Now, two years down the road, the Chins have gone back to Brunei, where Paul has rejoined the family business, and Alex acquired control of **General Marine Underwriting**. Which is supposed to have $50m of Mexican Credit Union bonds in it, backed by land in Baja California

Or at least it was in the last balance sheets we saw. Bill Hilditch was signing cover notes for GMU from his copycat agency in the Philippines, and now has gone missing during a trip to Moscow. You don't look surprised? Just because the KGB has transmuted itself into the regulators of almost everything (new names above the same offices, and the same links to the oligarchs and Chechen Mafia). You nasty cynical person, you. Usual trick is a cell in Lubianka prison, with a different name on the outside. Lost and gone for ever. Knowing Bill, though, he will reappear.

Canada wants its money back. Not surprising really. No names, because these are the guys that got us arrested in the Philippines after buying Manila's chief of police, when they were friendly with PCI. Not to be trifled with. We will get the full story for you, and as always, they all trickle into the London market somewhere. London gets a bit of everything.For one Fenchurch Street agency, GMU was ditched, and was followed by **Condor Ins Co**, which has also taken up a few columns in this rag. Now that has fallen out to, and transferred its allegiance to one of Peter I Greengrass' operation in Norwich. This is named, with breathtaking originality, **Norwich International Agency**, jointly owned with **Jim Miller**. Condor, as we have been saying for months, is a load of fitted excrement (wall to wall….), but new names are coming to light. There is **International Reinsurance Co.**, like Condor from the islet of Nevis in the Caribbean, that well known centre of Insurance, Reinsurance and untraceable assets. Interestingly, paper is being shown to us bearing P.I.G.'s signature as Financial Director of IRC. That's out of order, within the jurisdiction, and cost another offshore company problems.

In fact, Nevis seems to be the favourite place for strange companies to plant their flags. We came across the following letter during our investigations. Which makes International Depositors Reinsurance Corporation one to watch out for as well.

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Nevis Island Administration
Ministry of Finance and Developmen.

Administration Building
Charlestown
Nevis

Tel: (869) 469-5521
Fax. (869) 469-5863
E-mail:

Mr. Douglas Ferguson
International Depositors' Reinsurance Corporation
Heritage Plaza
Main Street, Suite U-7
Charlestown, Nevis
West Indies

Dear Mr. Ferguson:

The Financial Services Department of the Nevis Island Administration is in receipt of your response with respect to our request for information regarding International Depositors' Reinsurance Corporation.

Your letter failed to give us the desired assurances regarding the questions that were raised in our origina. correspondence. This fact has fortified in our minds that your operation must be closed down as a matter of urgency. The facts which led to this decision, and of which you are already aware are as follows:

1) The advertising of International Depositors' Reinsurance Corporation and the manner in which you are conducting your business raises serious regulatory considerations.
2) By your own account, International Depositors' Reinsurance Corporation is not governed by any jurisdiction, nor regulated by any jurisdiction.
3) International Depositors' Reinsurance Corporation is not licensed by the Nevis Island Administration to conduct any business of any kind in Nevis.
4) International Depositors' Reinsurance Corporation has been doing business as International Deposit Insurance Corporation (IDIC) and has been operating and passing it self off as an insurance company in Nevis licensed to offer services to non-residents.

Take notice that you are required to close and cease all operations in Nevis with immediate effect. Any failure by you to cease operations will result in such legal action as the Nevis Island Administration deems appropriate in the circumstances.

Sincerely,

Laurie Lawrence
Permanent Secretary
Ministry of Finance, Planning and Development

Why is Nevis so popular? The number of different formats for companies is part of the reason:-

Offshore insurance companies

Insurance companies of the offshore type belong, together with offshore bank and trust companies among the most up-to-date tools in the field of tax planning and tax optimisation. Like offshore banks insurance companies formed in offshore jurisdictions also enjoy the liberal environment of the offshore system and legislation.

There exists a number of types of offshore insurance licenses, beginning with the full international license, through a number of limited licenses to a license for additional insurance or underwriter or insurance broker licenses. Every jurisdiction has its own laws and classes of individual licenses which offer

some of the below listed forms of licenses.

General Unrestricted Offshore License

This is a full international offshore insurance license, which usually does not have any restriction of activities, which means that on the basis of this license it is possible to insure, secure insurance or reinsure without limitation, including providing life policies or policies for other insurance companies from offshore or onshore jurisdictions.

Restricted Offshore License

Basically this concerns a full international insurance license which, however, has specific restrictions, such as an upper limit for the maximum amount of insurance policies, not providing life policies, foreign exchange restrictions, etc.

Restricted In-house License

The Restricted In-house License is a license which enables its holders to provide insurance services exclusively to a group of natural persons or legal entities who are the subject matter of the license or to the proprietor of the insurance company. This type of insurance company is intensively used by international holdings, banks, insurance companies and tax optimisation funds. The most frequented seat of these insurance companies are the Bermuda Islands, where at present about 3,000 internal insurance companies are registered, which administer insurance policies amounting to several billions of USD.

Re-Insurance License

This is a company, which itself cannot insure but which can only accept an insurance policy and subsequently secure it at another commercial onshore or offshore insurance company, often at a wholesale price. The home country of the re-insurance companies is the Caribbean island Nevis, where you can get a re-insurance company at a price about USD 2,000. A re-insurance company is an extremely excellent tool for tax planning intended de facto for any business, consulting or investment company.

Another chapter could be formed by licensed underwriters, brokers or trustees who can get licenses for international offshore activities in a number of offshore jurisdictions for international offshore activities at relatively advantageous conditions. A major part of the insurance companies of the Offshore type, like ordinary business offshore companies, are not subject to taxation of their profits, but they often pay a certain type of lump-sum tax only or appropriate license fees. These fees are an important aspect while deciding about the extension of a license or its cancellation on the part of authorities. The main characteristics of offshore insurance licenses can be defined as follows:

Low interventions on the part of authorities and institutions Lower capital requirements than in the case of other jurisdictions Tax aspects, they are often exempted from all forms of direct taxes Tax on profits are replaced with lump-sum taxes Low establishment fees Low license fees Liberal requirements connected with the operation of the insurance company Offshore insurance companies are often not subject to foreign exchange restrictions Licenses are easily available in a number of offshore jurisdictions In a number of countries no obligation of capital adequacy maintenance Possibility of concluding all types of insurance policies, including life policies

Offshore insurance companies can be used for two basic types of activities:

for proper insurance, security, reinsurance or other similar activities for tax planning purposes.

Using an offshore insurance company for insurance activities

Many offshore insurance companies provide their clients with insurance services which can include various types of insurance coverage of a high risk - for example against events of negligence and misuse of official authority, corporate liability, against a possible strike as well as insurance of other risks which would be very expensive if agreed upon with ordinary onshore insurance companies. The ability of make profits of providing these services depends to a significant extent on competition on the market and on the price of the insurance policy when purchased from standard providers in an onshore jurisdiction. Indeed, insurance business activities have

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become a highly profitable matter for many private international offshore insurance companies, and it is no exception that an offshore branch office of an insurance company is more profitable than its parent onshore company. Since in many cases the onshore insurers charged an unbelievable premium - or refused to conclude an insurance policy at all - the parties which were exposed to a high risk did not have any other possibility but contacting offshore institutions which were glad to meet their requirements, often even with a discount. Some of them only contacted the renowned foreign insurance companies which were willing to take over the coverage of the risks at more acceptable premium than onshore insurance companies. Other, mostly professional groups, holdings or individuals with common risks tended to establish co-operation insurance pools, operating either in offshore locations or in such states as Vermont (USA) or Colorado(also USA), which had more tolerating insurance regulations, and which in turn provided insurance to all members of the interest group.

Use of an offshore insurance company for tax planning purposes

An offshore insurance company may help the international insurance community not only in the field of tax planning, asset protection, but also for the purpose of increasing image and goodwill of the group (or holding), which thus can declare ownership of an insurance company and its capitals strength. Who can use an insurance company for tax planning purposes? It is possible to state that almost anyone whose business activity nature is of such a type that this legal entity can be made use of. The ownership of an offshore company brings several basic advantages. The first advantage is a simple fact that this company provides a certain type of insurance at all. Conservative insurers continue to consider many companies and transactions to be too risky and they simply refuse to provide a standard insurance, or if one manages to persuade them to make an insurance policy quotation, they require such restrictive conditions that it is virtually impossible to conclude it. That is why a company which needs to conclude an non-conventional insurance policy before starting a new project can get into a situation that it will have to leave its plans due to the impossibility of finding an insurance (reinsurance) coverage. But an insurance policy provided by an International Captive Insurance Company, for which it is possible to find reinsurance more easily on the part of a conventional re-insurer, can solve similar problems for many firms. In comparison with costs of coverage provided by domestic insurers, the insurance premium rate at the international institution will probably be much lower.

Second, there are also tax advantages resulting from the insurance at an international insurance institution, because the costs charged by an insurance company formed in this manner can be included into the tax base of the company. In other words this means that all insurance contracts and policies concluded, for which an insurance company logically requires remuneration, can reduce the tax base of the parent company of the investor in an invoiced volume.

An Offshore insurance company can conclude coverage for:

Risks connected with foreign activities Export, import and all foreign activities Insurance of persons in foreign countries (for example on business trips) Insurance against loss from business risks. Risks connected with loans, guarantees, purchase of securities Risks connected with professional liability

However, you don't have to use a Nevis company, you can have them almost anywhere. A Nevis company formation agent offers

For our qualified clients we establish offshore insurance companies in the following jurisdictions:

Cyprus, Isle of Man, Bahamas, Cayman Islands, Turks and Caicos, Anguilla, Antigua, St. Vincent, Grenada, British Virgin Islands, St. Kitts, Montserrat, St. Lucia, Dominica, Nevis, American Virgin Islands, Nauru, Gibraltar,

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USA, Vanuatu, Cook islands, Samoa, Bermuda, Jersey and many other jurisdictions.
Offshore insurance companies are uniquely one of the most up-to-date tools of offshore strategies. Their use reaches from the providing of proper insurance companies for the general public to family insurance services which optimises tax burden of a very rich individual or to the service of cash flow active management at international firms.

CENTENNIAL CALMING DOWN

That one, where the final dust is settling, was **Centennial Ins Co**. Or **CIC Ins Co**, as it has become, just to confuse everybody. One in the original Centennial domicile of Aruba, another Caribbean islet, and one in Costa Rica, where Maridon and PCI hang out, although no connection is to be inferred. It didn't get its Greek licence, and most of the business it wrote in the UK has had to be cancelled and replaced. We hear that all the premiums brought in during its UK writing must be repatriated, and indeed that they have been.

WHERE ARE THEY NOW?

419's (name after the section of the Nigerian financial laws that specifically forbids them.) are spreading like a fungus. We have a new crop for you this month.

One is anonymous, with no name given. It says. In part,:-

I was the chairman of contract review panel in my country before the problem of the land reform program in my country Zimbabwe. Before the escalation of the situation in Zimbabwe I recovered $16.8Million US dollars from over inflated contracts by some government officials.
But I was a member of the opposition party the MDC (Movement for Democratic Change), and the ruling Party, (ZANU PF) has been against us. So I had to flee the country for a neighbouring African Country which I am currently residing.
Before the escalation of the situation in Zimbabwe I had not reported the recovery of my findings to the panel. So this money was in my possession and I lodged it in a security company here in Africa and currently this money has been moved to their security branch in Europe. I have been trying to fly to Europe but it has been difficult for me to get a visa from Africa.
So I want you to help me make claims of this fund($16m) in Europe as my beneficiary and transfer the money to your account or any account of your choice before I can get a visa to fly down. So that we can share this money
Knowing Mugabe's way with anyone that doesn't bend to his will, no wonder he's keeping his name quiet. There can only be one "Chairman of…." though, surely.
Others are going the rounds from Johnny Eke, Malwuwl Chisom, Two separate ones from Michael Thambo, and Mike Idu. If anybody out there retains any beliefs that some king person will give you millions for nothing, we'll send you lots of offers.
Insurance agent **Fernando Aguillar Ayala** sold bogus auto policies to three customers, stealing $1,676 in premiums, California prosecutors say. Aguillar allegedly gave the clients worthless insurance cards with invalid policy numbers. Another employee of his Los Angeles agency allegedly sold a $625 policy even though he wasn't a licensed broker. Such auto scams often target immigrants and seniors, state officials warn. Each year, Californians over age 50 lose more than $10 billion to financial swindles, and more than 70 percent of the victims were approached by dishonest insurance agents, the state insurance department says.

INTERNATIONAL ROUNDUP

HAPPIEST INSURERS

A little while Ago, the Sunday Times did a review of the best companies to work for in the

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UK. Nor surprisingly, most of the household names did not appear in the top 100. You have to get down to number 26 before you find Brit Insurance, then to 66 to find Home Service in Walsall, 71 to find Kwik-Fit Insurance Services of Uddington and, at 86, WPA, a health insurer from Taunton.

HCC SELLS EMPLOYEE CARE

Continued from page 1

Not the book that wiped out Sphere Drake and Stirling Cooke, but not too different. He also bought a chunk of Bradstocks, who helped with the Workers Comp placing, but went bust.

When the ordure hit the fan, it became wise to unwind the situation, and this has now happened.

Jardine Lloyd Thompson Group Plc (UK) announced on January 5 that its US-based subsidiary, **Capital Risk LLC**, has acquired the business portfolio and related assets of **HCC Employee Benefits Inc**, effective from 31st December 2003.

The business acquired specialises in the broking of life, accident and health insurance, is headquartered in Houston, Texas, and formerly owned by **HCC Insurance Holdings** ("HCC"). For the year to 31st December 2002 the business had turnover of US$22.1 million and a profit before taxation, excluding HCC corporate charges and expenses, of $11.5 million. The value of the net assets acquired is approximately $0.7 million. As part of this transaction it is anticipated that 60 employees will be transferring to Capital Risk.

The consideration payable is equal to 6.25 times 2004 profit before taxation. The initial consideration of $62.5 million, which is payable on completion, will be funded by JLT from its own cash resources. Deferred consideration of up to a further $25 million may be paid in 2005 dependent, as described above, on the profit achieved by the acquired business in 2004.

This acquisition adds a new specialist capability to Capital Risk and will diversify and strengthen its scope of business.

Houston Casualty continues from strength to strength, having been taken public for $100m a few years back.

REINSURANCE IS MOVING

Bermuda has been growing, too. From a small offshore domicile, it has become a major player in the reinsurance market, and so central to the development of new capacity that it, and the tax breaks that make it so attractive, has become a policy matter influencing the US presidential election.

Switzerland, with Swiss Re and Zurich heading the list, had top reinsurance capacity in 2001 with a 22% market share, but their share fell to 15% in 2002. On the other hand, Germany, whose largest is Munich, saw an increase in placements from 10% of the total in 2001 to 16% last year.

Bermuda, has rocketed to 12.7% of the total placed with local companies, including new start-ups such as **Arch Reinsurance Ltd**, **Allied World Assurance Company Ltd** and **Montpelier Reinsurance Company**, continuing the trend of 12.5% for the years 2002 and 2001.

Tax breaks do count for a lot. Little Guernsey, in the Channel Islands, saw 6.1% of the total both captives and the fast growing protected cell companies (PCC) sector, whilst even the Isle of Man manages 0.8%. Ireland, itself an onshore/offshore-style centre, continues to be popular with 3.6%, down from 4.2% the previous year and a whopping 23.5% in 1999, when it was the beneficiary of several large run-off contracts. Competition is heating up, and Bermuda does seem to be leading the pack. That is, until a possible change in American law.

CLAIMS FRAUD

We hear from the Coalition Against Insurance Fraud, an industry funded organisation dedicated to stamping out claims fraud, that fake health insurers have saddled vulnerable small businesses with $252 million in unpaid

medical bills over the last three years. This came out in a federal auditors report released last month. At least 144 unlicensed insurers have sold more than 200,000 bogus health policies, mostly to small businesses seeking affordable health coverage during a period of sharp premium increases, the U.S. General Accounting Office said. This makes our coverage of the ERISA scam in Texas with Jack Ferguson and his Southern Plan Administrators a part of a very large problem. Every state has seen at least five unlicensed insurers, and the problem may be growing worse: The feds have discovered 60 more unlicensed insurers in 2002. The scams had "predators feeding on ordinary citizens," said Sen. Charles Grassley (R-Iowa) chair of the Finance Committee during a hearing Wednesday. One victim owed $500,000 for a liver transplant after her plan wouldn't pay up. New laws making health coverage more affordable are crucial, one expert said. Crackdowns have been slowed by a lack of aggressive criminal prosecution by the feds, said Mila Kofman, assistant professor at Georgetown University. The GAO report can be downloaded from the coalition's website at http://insurancefraud.org/downloads/gao0303.pdf.

Ferguson didn't go away either. Although there are class actions on the go for his use of MarkeTrends, Centennial and a whole string of other non paying insurers, and currently investigations by the Department of Labour, the FBI and others, he's got himself a new brokers licence, and can write for:-

- Colonial County Mutual Insurance Co,
- Nationwide General I C
- Nationwide Lloyds
- Nationwide Mutual Fire Insurance Co
- Nationwide Mutual Ins. Co.#
- Nationwide Property & Casualty I C

All of which he's doing, in broad daylight, from 7601 FM 1960 East Humble, TX 77346.

Humble he's not.

It isn't just America. A large portion of insurance scams in South Africa involve HIV-positive patients who use blood samples of healthy people to obtain life insurance. In many cases, crooked doctors and agents work together. They draw blood from a healthy person and submit it to the insurer in the name of an HIV-positive person who otherwise couldn't buy life coverage. Agents and doctors who are convicted lose their licenses and their names are placed in a database of offenders. Industry officials also are considering rewarding lab employees who discover fraud schemes.

BROKER REGULATION. IN SECRET

The FSA will not provide insurers with information on which brokers it is "minded to authorise" until November at the earliest.

The decision comes after insurers met the FSA to express their concerns about "orphan" business, which refers to the business of those brokers that fail to gain authorisation from the FSA. Many in the market are concerned that service and cover may be disrupted, particularly for policyholders with renewals falling in January 2005.

They had been pushing for the FSA to create and give them access to a database which would be updated throughout 2004, as brokers were issued with 'minded to authorise' letters.

These indicate the FSA's intention to approve a broker for regulation. One of the concerns we have heard expressed, is that brokers are talking about showing these letters to insurers and others, to show they have pass4ed scrutiny, and there will therefore arise a thriving trade in forgeries.

The head of policy and technical standards for the FSA's high street firms division, Eleanor Linton, said the first letters will be sent out in April. So the problem is about to hit.

One insurer source said that in order to ensure a smooth transition for 1 January renewals, insurers needed to know which brokers the FSA was minded to authorise in September.

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Speaking at an Institute of Insurance Brokers (IIB) conference last week, Linton said that the FSA was looking into ways of how to share details of which brokers it was minded to authorise.
"We're looking at how we can make that info available on firms," Linton said. "We will do everything we can to do it before November."
In an off the record conversation, we were told that creating an early-access system would not be possible. It is thought to be good enough that insurers, as well as the public, would be able to access the register of authorised businesses on the FSA's website "up to two months before the start of regulation".
One option for dealing with orphan business would be for insurers to administer the business direct, but very few insurers have the systems to handle an influx of direct business.
Another alternative was arranging an "amicable" transfer of the business to other brokers. How "amicable is that going to be?
All of it in a rush.

DRESDENER COSTS ALLIANZ

Allianz Dresdner Asset Management and its US bond subsidiary **Pimco** face regulatory and court action for alleged mutual fund trading violations
New Jersey attorney-general Peter Harvey filed a civil lawsuit against them and three affiliated companies, saying they allowed **Canary Capital** to make more than 200 illicit market timing transactions in Pimco funds, totalling more than $4 billion over an 18-month period. This was in direct contravention of the statements made in the funds prospectus, the newspaper quoted the lawsuit as claiming.

More than 20 US mutual fund groups are facing legal claims related to illicit trading of funds after the market's close.

LLOYDS NEWS

SUNRISE SETS

The Lloyd's franchise board is likely to refuse to authorise SunRise, the proposed professional indemnity (P1) insurer headed by former SVB chief executive Rupert Villers.
The insurer was scheduled to begin trading at Lloyd's in April, but market sources said the franchise board was "reluctant" to approve the insurer.
Villers declined to comment on the application for Lloyd's authorisation. But sources close to SunRise said the franchise board had been "discouraging" when discussing the insurer's application.
It is likely that SunRise would "conclude its discussions with Lloyd's" before considering an application for direct authorisation by the FSA. No point in going through all that if it isn't going to get off the ground.
It is understood that SunRise is still in discussions with capital providers and is looking to amend its business plan.
Villers developed the business plan for SunRise together with former SVB finance director Philip Whittaker.
Villers was chairman of the SVB group when it suffered its well-documented reserving problems. SVB Holdings reported a loss after tax on ordinary activities of £88.3m in 2001.
To get Sunrise off the ground would take between £100m and £150m, either from Bermuda or private equity finance.
Villers was aiming to launch SunRise in April and produce gross written income off 125m in the first year, increasing by 50% intl second year.
The Lloyd's franchise board has expressed concern about the large amounts of P1 capacity flooding into the market.
Lloyd's fears a price war and has warned managing agents that it will stop them underwriting if there are any signs of undercutting on P1 rates.
A number of insurers have entered the P1 market in recent months.

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As a result, perhaps, Hiscox and QBE will experience a "considerable reduction" in the volume of professional. indemnity (P1) business received from Dickson Manchester (DM) following the broker's merger with Rattner Mackenzie (RM).

HCC Insurance Holdings, which owns both DM and RM, confirmed the merger of the two Lloyd's brokers this week.

It is understood that a "significant amount" of DM's P1 business will now be underwritten by HCC.

DM director Michael Dickson confirmed that there would be a "considerable reduction" is the amount of business the broker placed with Hiscox and QBE. A source close to the deal said Hiscox and QBE were "hopping mad" after being told the news.

Hiscox chief executive Bronek Masojada said: "We have been expecting it since the change of ownership. We had a few million of capacity running through."

QBE said: "QBE has a large and successful P1 underwriting operation, and DM is a valuable part of this. Our priority is to ensure continuity for all our client base and we are currently reviewing all strategic options in this respect."

Under the terms of the deal, DM will become a division of RM specialising in professional indemnity. Dickson said DM's director of broking Simon Fitzgerald had left the firm following ft merger, but that all other DM staff would remain.

Dickson said the merger would not affect DM's plans announced in November 2003, to develop a book of employers' liability (EL) and public liability (P1) business.

In a related development, the underwriting agency HC(Diversified Products will focus on smaller UK and EU P business. DM founder Charle Manchester will become chief executive of HCC Diversified Products, which is expected to write £50m of UK I business in 2004.

HCC acquired DM at the end of2002. Last year, HCC agreed to purchase a 20% share in Illium to provide working capital, as well as £25m of capacity for Illium Syndicate 4040.

Last year, Catlin Insurance Company Ltd (CICL), which focused on specialty lines including P1, was launched with a capacity of around £150m. Hasn't he done well.

CATLIN FLOAT

We mentioned last month that **Steven Catlin's** new venture in Bermuda has done him proud, after a history in Lloyds that included the use of Kobe Re (sister to Dai Ichi Kyoto Re) to carry his rollovers. He started **Catlin Group** 20 years ago with a £15,000 bank loan., and now stands to make an estimated £20 million as the company goes for a £700 million flotation.

Stephen Catlin will reap the windfall when the flotation is done, on the London Stuck Exchange this month.

A valuation of £700m will make it the largest listed Lloyds of London insurer.

Also in line for a big payday is **Leslie Denekamp**, Mr Catlin's first employee, who started as a secretary at the firm in 1985 with the intention of staying for three years,

She is now chief operating officer of the London office. Many of the staff are also shareholders, and unlike those who **Michael Bright** persuaded to invest in his bent operation, will be rewarded.

At least 75 per cent of the business will be floated, with Goldman Sachs, .J P Morgan, and LJ[IS acting as advisers. Let us hope GS do better than they did out of the Stirling Cooke flotation. Certain of those names are back in the market now. **John Whitcombe**, for one. After writing the Gross loss business the was the downfall of Sphere Drake and Stealing Crooks at Lloyds, he set up EIU, to channel the business into yet more naiive capacity. Justice Thomas took a more benign view of his misconduct, pointing out that he did his best to try and reign in the excesses of **Stirling Cooke Brown** and his colleague **Chris Henton**: *"Although he had acted dishonestly, it is right to point out that he never properly understood the business into which SCB had led him. When he understood enough to appreciate the very serious position into which he had put SD, he was in too deep to extricate himself; his actions became dishonest as he continued to conceal*

the disastrous position in which SCB and Mr Henton had placed SD.
However, he did not act with the same degree of dishonesty as Mr Henton; he deserves credit for acting to restrain Mr Henton and Mr Brown in relation to Unum and in relation to continuing underwriting when they appreciated that they had no reinsurance cover in March 1997" ruled the Judge.
About the only broker that would give him houseroom after that was **Campion McCall**, and his arrival caused the abrupt Departure of **Vic Broad.** He was reported to have said "I've been calling him a liar for two years, and can't really share an office. After which Vic went to Lonsdales, and got himself nutted in the boardroom. Is this really the London market we all thought we knew and loved?
Lloyd's managing agent Canopius confirmed that it has placed some professional indemnity cover for the Italian arm of GrantThornton the auditors involved in the £7bri Parmalat scandal
Canoplus chief executive Michael Watson seems to have an affinity for disasters. He presided over the collapse of both Sphere Drake London, and Trenwick. He confirmed that the insurer had provided cover to Grant Thornton, but declined to reveal the extent of the exposure except that it is not at a primary level. Parmalat is currently at the centre of a number of investigations into its finances after it was alleged that around £7bn was missing from its accounts. Like a precious Italian scandal, Ambrosiana, the money was transferred to Caribbean companies linked to senior management, and from there seems to have gone walkabout.
Lloyds managing agent Trenwick was rebranded as Canopius at the end of last year, after most of the Trenwick operation found it could not continue. Canopius Syndicate 4444 has a2004 capacity of £25Om.
The syndicate will write around E23m of UK P1 business in its first year.
Whilst Watson will not say, it is understood, that Canopius insured Grant Thornton's Italian arm for just under £1 m. Earlier this year it was revealed that Zurich had also provided P1 cover for Grant Thornton in Italy

Meanwhile, Abacus Syndicate 2526, which is targeting £40m of business in 2004, has began trading this month.

SECURITY COMMITTEE MATTERS

Among the Bests rating changes for February, were:-

Commercial Mutual I C (GA) has asked for its B rating to be withdrawn, as have **Covenant Group** and **Cornerstone Mutual**, in the same state. Add **Interboro Mutual Indemnity IC** (NY) to that list. Along with Irish Life Assurance plc (Eire).

Converium NA Group (NY) has lost it's A rating, and is now "not formally followed". Similarly, so has **GE Financial P&C** in Pennsylvania, **Universal Fire and Casualty IC** (Indiana), North Pointe Group (Michigan), and **Brittanic Assurance Plc** in the UK..

Sea I C (UK), has gone the same route, as has Stockton Reinsurance in Bermuda. **Skandia I C** (Sweden) has gone from an A to "Rating procedure inapplicable".

GIC (India) has popped up in South Africa being used to front undercutting of aviation rates, which are then reinsured on. Another in that area is **Busin Insurance Co**, from the Ukraine, with Eu 35m of capital, and not a lot to lose.

Hannover Re, with a number of problems, including Clarendon, is working its way out of the poorly capitalised league. It has successfully placed a subordinated debt issue of EUR 750 million in the European capital markets today via its guaranteed subsidiary **Hannover Finance (Luxembourg)** S.A. The bond, which was several times oversubscribed, was placed predominately with institutional investors in Europe by the lead managers Deutsche Bank and J P Morgan.

The bond was priced at a spread of 163 basis points over the 10-year mid-swap rate and has a final maturity of 20 years. It may be redeemed by Hannover Re after 10 years at the earliest. If the bond is not called at the end of year 10, the coupon will step-up by 100 basis points to a floating rate yield of quarterly EURIBOR + 263 basis points. So the holders will want it to remain unredeemed. Ten years is about right for the cycle to have turned sour again, so they may get their wishes.

"We are highly satisfied with the placement of the bond. By issuing additional hybrid capital we are utilising the current low interest rate environment and optimising our capital base", **Wilhelm Zeller**, Chairman of the Executive Board, explained. "This transaction further strengthens Hannover Re's position in the international reinsurance markets."

It also allows them to call back some expensive paper it floated when it was in worse trouble. As already announced, the company intends to buy back its USD 400 million subordinated debt deal issued in 1999 by Hannover Finance Inc., Wilmington, USA, so as to take advantage of the currently highly advantageous EUR/USD exchange rate. Given the fact that Hannover Re will also repay the surplus debenture of approximately EUR 120 million due in November 2004, the net interest burden will only marginally increase. That's not a bad deal.

The present hybrid issue not only helps boost Hannover Re's capital base for only a negligible increase in interest burden, but also enhances its market appeal. It also benefits the shareholders of Hannover Re, as there will be no dilution of earnings per share.

The rating agencies most relevant to the insurance industry have awarded Hannover Re very strong insurer financial strength ratings (Standard & Poor's AA- "Very Strong" and A.M. Best A "Excellent").

MRM SUES HANCOCK OVER CARVEOUT

Mutual Risk Management Ltd. is charging in a lawsuit that **John Hancock Life Insurance Co.** intentionally refused to pay reinsurance claims in an effort to force financially troubled MRM to renegotiate the reinsurance treaties' terms. From 1992 until 2000, John Hancock reinsured workers compensation carve-out risks written by MRM subsidiary **Legion Insurance Co.**, retroceding the business to other reinsurers, the suit says. John Hancock in 1999 halted claim payments to Legion, which is now in liquidation, amid a rising tide of disputes among many participants in the carve-out reinsurance market. John Hancock declined to comment. This is the same class of business that cause Sphere Drake and Stealing Crooks to come to blows. That resulted in a double knockout.

STANDARD LIFE SELLS

After bucking the system, and boasting it would ride out the fall in share prices, **Standard Life** is selling shares worth £7.5 billion, about 30 per cent of the total held in its with-profits fund.

The move is potentially bad news for the mutual's policyholders because the money will be switched into lower-growth investments, such as bonds, just when shares look set to continue going up.

Standard Life stuck doggedly to shares during 2001 and 2002 as markets plunged. A move away from shares now, in a period of recovery, will anger policyholders.

Commentators say the U-turn is an inevitable result of Standard's recent row with the Financial Services Authority, which culminated in the abrupt departure of chief executive lain Lumsden last month.

The FSA is thought to have challenged Standard's way of measuring its reserves. As a result, the company must now consider a stock market flotation and reduce risk by ditching shares.

Officials at Standard's Edinburgh HQ would not confirm the equity sell-off, but the company's salesmen are unofficially briefing financial advisers that ten per cent of the fund will be switched out of shares by June.

This would leave less than half of the total fund invested in shares, compared with 60 per cent at the end of 2003.

Policyholders suffered a separate shock when the insurer announced that payouts on pensions and endowments would be down by as much as a quarter in 12 months.

Since 2002, Standard's payout for an average 20-year pension has fallen 35 per cent. The payout for a 25-year endowment, typically linked to a mortgage, has fallen 30 per cent.

Sandy Crombie, Standard's new chief executive, admitted that 73 per cent of endowment policies were unlikely to clear their mortgages

The bonus cuts stem from Standard's overpayments during 2001 and 2002, despite the fall in shares. The corrective medicine now being administered involves much-reduced payouts, despite the investment growth during 2003 trumpeted by Standard, which hardly helps to improve transparency.

All this news triggered a policyholder revolt at the ailing insurerTrigger was when policyholders were asked to approve a £1.8 million payoff for former chief executive Iain Lumsden.

Ballot forms for this year's April annual meeting are being dispatched at a rate of 400,000 a day to all Standard's 2.3 million members, who are being asked to vote for the first time on executive pay. The mass-mailing follows revelations that Lumsden, 57, who quit under a cloud last in January, has received almost £2 million in final payoffs, including a basic £562,000 salary, benefits worth £18,000 and bonuses worth £555,000.

The value of his pension fund mushroomed by £748,000 during 2003 to £6,857,220, putting him in line for retirement payments of £338,995 a year. This is in contrast to policyholders, who have seen their pensions shrink by half in some cases, and whose money it is being used for the extravagant payoffs. Many policyholders, who at last year's AGM voiced furious objections to boardroom pay, are expected to reject the pay policy though a 'No' majority

Although they cannot reverse payments already made, it would be seen as a significant vote of no confidence in the board, headed by Sandy Crombie. His basic salary rocketed from £384,000 in 2002 to £600,000 this year, following his promotion to replace Lumsden.

Standard's fall from grace during Lumsden's three-year period as chief executive has been dramatic. Its once-prized credit ratings have been lost, its capital base eroded, and its investment performance trails its rivals. Brand damage and persistent anxieties about its strength have hit sales. The company is now considering a stock market flotation to raise capital.

Standard spokesman Gordon Arthur said: 'The board takes members' views very seriously. We will have to wait and see the results of the vote. But we can show that our top executives are awarded significantly less than rivals. The board is good value.' That doesn't say much for their rivals. All pension companies have lost vast sums of their policyholders money, leading to severe financial problems for the pensioners and mortgage holders, while the boards which oversaw the debacle continuing to siphon off enough of the remaining client funds to ensure that they do not suffer.

Ian Lumsden, the former chief executive of Standard Life, saw his pension soar by an estimated £22 million in the three years he ran the now bled insurer, it emerged yesterday. Over the same period, his customers saw payouts on their own pensions plunge by up to 40 per cent.

Details of the extraordinary increase in benefits, which also saw the former chief pick up £1.1 million in pay and bonuses, will enrage policyholders as the mutual approaches its annual meeting in April.

Mr Lumsden, who left abruptly last month, has retired on £338,995 a year, 60 per cent more than the £208,000 he was promised at the end of 2001, before becoming chief executive in March 2002. It will cost £6.1 million to pay the pension, an estimated increase of £2.2 million since 200L

David Stonebanks, a policyholder whose attempt to force the institution to demutualise last year was fought off by Mr Lumsden, said: "This is what we've come to expect from them. They've kicked us in the teeth again."

In the period that Mr Lumsden's pension rocketed, payouts to policyholders were cut on five separate occasions. A policyholder paying £200 a month into his pension for 20 years would have received a payout of £247,361 in February 2002. Today, the same policyholder would receive just £143,090.

Policyholders will have the chance for the first time to vote on directors' pay and benefits at April's annual meeting. Experts expect a repeat of the rocky reception directors faced last year, when policyholders were outraged at the six-figure bonuses paid to the top executives.

Last year top executives were accused of being "complacent, arrogant and clubby" by policyholders enraged by their awards. There will be extra tension at this year's meeting as Standard reveals the early conclusions of a review that could lead to demutualisation.

Mr Lumsden's total pay an benefits for last year reached £897,000, including £335,000 of bonuses and long-term incentive payouts. But he also received £238,000 from long-term incentive plan, taking his total award to more than £1.1 million. His total package for 2002 was £743,000.

The former chief executive resigned on the day it emerged that the Financial Services Authority was appointing a team of independent auditors to scrutinise Standard Life's estimates of its liabilities. The insurer also promised to boost its reserves after discussion with the FSA over its ailing balance sheet, and launched a £750 million debt issue.

Ronnie Sloan, an independent actuary who stood as a candidate for directorship in 2001, said:

"The remuneration committee is giving them ridiculously generous benefits. It is ludicrous."

Sandy Crombie, the former head of Standard Life's investment arm who replaced Mr Lumsden, will earn a basic salary of £600,000, the same as the pay promised to Mr Lumsden for 2004 just weeks before his resignation. Mr Crombie's total package for 2003 was £743,000, compared with £685,000 in 2002.

Gerry Grimstone, chairman of the remuneration committee, said: "We have no doubt that the overall remuneration we pay our top people is not excessive and offers members good value."

But he said that the committee would be reviewing the directors' long-term incentive plan in 2004 "to make sure that it is properly aligned with the company's performance".

Mr Lumsden is a member of the company's final salary pension scheme, run entirely on contributions from the company. This means that he did not have to pay anything into the pension in more than 30 years at the insurer to gain his £338,000-a-year retirement income. His early retirement knocked just £11,000 a year off his total benefit.

All this while those he had a duty to must face a penurious old age, as a result of his well paid mismanagement.

Standard Life blames the FSA for its problems (well they couldn't be their own fault, now could they) and the rest of the life and pensions market thinks they're being penalised out of the running.

The new "realistic accounting" requirements imposed on life insurance companies unfairly discriminate against mutual insurers, a cross-party group of MPs said last week. The mutual insurance sector will disappear completely within the next couple of years, Vincent Cable, told a meeting at Westminster Hall e Houses of Parliament. It is vital to ensure that there is diversity and a level playing field within the 1aw, but the actions of the Financial Services Authority are deliberately pushing Standard Life to demutualise", Cable added. New accounting requirements force insurers to react against promises of 'benefits from mutuality. The meeting was called to explore how the new rules could have been responsible for the problems now affecting Standard Life.

The insurer has admitted the new rules could result need to demutualise. MPs at the meeting heard that with-profits ice policies held with mutual insurers typically were valued at10.75 per cent higher than non-mutuals.

But, without shareholders, mutuals also faced greater difficulties when trying to raise new capital.

Andy Love, the Labour MP for Edmonton, claimed that policies he personally held with

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former mutual insurers now paid less than those with existing mutuals.

Love said: "What I'm interested in is the way the move to realistic reporting will impact on Standard Life as a mutual, If the company cannot benefit from its mutual status, are we not placing the mutual sector at a disadvantage? Will companies not look again at whether there's any point in being a mutual?

"We need a financial sector that embraces diversity. Perhaps mutuals need recognition of their special circumstances so that they know there's someone out there who thinks mutuality is a good thing."

Salmond pointed to recent statistics revealing that building societies (which, by definition, are mutuals) accounted for 17 of the top 20 best-paying savings institutions.

Andrew Tyrie, the shadow Treasury spokesman, echoed the general opinion that the publication of the Penrose report on Equitable Life may be clouding the FSA's judgment.

He said: "Equitable was a unique business model. It operated on virtually no reserves. Whether the regulator should have accepted this business model at the time is another question. But this is not the business model on which Standard Life is built."

Tyrie also expressed concern at the cost of implementing the new rules. "There have been 21 major changes to life insurance regulation recently," he said. "We must consider the cost and benefits of all these changes. At the end of the I day, the consumer pays the price."

Ruth Kelly, the Treasury's financial secretary, said that many quoted life insurers would also have to boost their capital. She said: "The move to realistic reporting is not intended to force companies to raise more capital but the FSA accepts that a proportion of companies may have to reassign capital as a result."

Tom McPhail of Hargreaves Lansdown said: "These new rules will create a complete doomsday scenario for with-profits companies, whether they're mutuals or not. These companies are dead in the water, and I don't believe for one moment that Standard Life is the only one likely to experience problems."

GERLING SLIMS

A meeting of **Gerling Global Re** shareholders has agreed to a package of measures for restructuring the company.

The shareholders resolved to reduce the nominal capital of the company from €337.9m to C50m, limiting the loss carried forward from prior years from d €438.3m to €150.4m. It also agreed to change the company's name to **Global Re** and to reduce the number of members of its supervisory board from 12 to six. So what does all this mean?

Firstly, if you want to dump a company, the first thing you do is change its name so the wreckage no longer reflects on an ongoing entity. See Brandywine (ex CNA) ……(ex Iron Trades Mutual) and so on.

Secondly, if you throw away most of the nominal capital, you are effectively capitalising the loss, as you can do with a profit. If you do the latter, the capital goes up, or if it's a loss, you do indeed reduce the capital. All this means is that you have stripped the company to the bone, leaving it with insufficient capital to be accepted as an underwriter again, and left much less of a buffer against future deterioration in results. And don't tell me there won't be one.

Basically, GGR is dead, long live whatever they can save from the wreckage. Even what is left of CNA is having problems. CNA Financial Corp. reported a $1.43 billion net loss for 2003 despite a fourth-quarter profit. CNAs 2003 loss, which compares with 2002 net income of $155 million, reflects more than $2 billion in reserve strengthening and other charges, which were reported in its nine-month results. For the quarter, the insurer reported $174 million in net income, a 248% increase over the same period in 2002. CNA reported a 1.2% increase in property/casualty net premiums written for the year, to $7.09 billion.

XL RE WAS UNAWARE

The boss of XL Capital admitted that the company was "flying blind" when the problems were discovered at its US subsidiary XL Re, but said that now they had investigated,

acted and put the matter behind them and were "looking forward to a good year in 2004."

XL Capital showed a loss in the fourth quarter of the year of $314.8 million after taking a pre-tax charge of $694 million mainly for potential North American 'reinsurance claims.

Brian O'Hara, chief executive officer and president of the Bermuda insurance giant spoke frankly in an interview with *The Royal Gazette, in Bermuda,* about the company's recent problems with tort and malpractice claims and the reserves it needed to put in place to make its investors and the analysts happy.

"The way I am looking at it, and they (the analysts) are beginning to is the problem is over, and now we are clear and free from past problems," he said, "So there is the really good news which is going on around here and it will start to come out unfettered so we have reaffirmed our annual projections in the $9.05 to $9.25 range (barring no major catastrophic events for 2004)." (sic), but we think he meant per share dividend, and barring any major....)

He said also that what XL had to now do was to produce the results, quarter by quarter, and he was confident that the company would be able to do this "now that we have this behind us".

He added: "It has been our only problem, everything else has gone really terrifically. But, I mean, it was quite a disappointing thing to have when so much, 98 percent, of everything else is going as planned or better. Now we can get back to that growth and see if we can build out on the strength of our fundamentals and the deeper customers penetration, and all that good stuff which will all lead to higher earnings going forward for the foreseeable future."

Reserve problems for XL began in the third quarter of last year, when tort and malpractice claims started to affect XL Re. In October, XL took a $160 million after-tax charge against third-quarter earnings to pay for potential claims in its North American business for medical malpractice and professional liability.

Then XL made the announcement that it was to take a further hit on January 13 after reviewing contracts sold between 1997 and 2001 by NAC Re Corp., an American reinsurance company XL bought for $1 billion in 1999.

Claims against North American reinsurance contracts written in the late 1990s have mounted recently, forcing reinsurers such as XL to pay out more than they had expected, and since November Mr. O'Hara has been dealing with the problems, trying to make sure that his company would come out as unscathed as it could from the troubles.

"It is an unfortunate thing from a past acquisition that was exposed in probably the worst areas legally in the US and a couple of very large treaty participations where the terms and conditions really had deteriorated in the late 1990s, well beyond anybody's understanding until we go into the heart of the matter and found it," he said.

When asked how involved he got in uncovering what went on, he said while he was not involved in the field audits, he was in weekly meeting about the issue and on top of it for months and said that he was "Consumed" by the affair from November 2003 onwards was in weekly meetings with all the teams doing it, so that I could fully understand all the details and the drivers, implications and what kind of actuarial viewpoint we had to take as we uncovered all the information," he said.

"What we were dealing with was an anomaly from many previous actuarial reporting patterns driven mostly by a sharp increase in the size of legal awards in the malpractice and professional liability area which led to and changed the reporting pattern because the ceding companies had liberalised terms dramatically to where they gave very long, extended reporting patterns..

"It is a little technical, but most of the policies were claims made, where you would expect you would know the information pretty timely but the companies that were reinsured gave very long, extended reporting periods which almost turned claims made policies into occurrence policies.

"And that was more open ended from an exposure stand point which changed all the historical reporting patterns until we really got

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into more detailed audit reviews to find that out. And we were flying blind.

"So that was what led to the unusually deep and detailed audit review that we did on the claims that were underlying the reinsurance treaties. Anyway we feel rather positive since I did get close to the whole analysis, and the actuarial view that we took that we are prepared for the worst. We reserved for the worst, so it can only get better from my stand point."

But Mr. O'Hara said that he was now glad to get back into the normal swing of things after putting the matter behind him and the company.

Old problems can come out of the woodwork. The acquisition of **Anglo American I.C.** (UK), part of the last bits of **HS Weavers** to be left standing, by Zurich Group excited a good deal of interest at the time. When **Cal Fed**, the Californian bank who formed it, sold out after the demise of H.S. Weavers; the consortium, advised by John Head, demanded two huge stop loss policies be purchased from **Centre Re** and **Pinnacle** in Bermuda. Now that both those companies are owned by **Zurich Re,** it is quite obvious why they wanted Anglo Am. They had most of the liabilities; they might as well have the company too. They did say "Centre Re's decision to assume ownership of Anglo American and responsibility for its management does not imply any commitment to provide financial support for Anglo American in excess of Anglo American's own resources". They didn't.

The company was put into run-off. Much of the problem centres around the stop-loss policies. Designed to give the company a "clean slate" when it struggled free of the fraud riven and failing H.S. Weavers, they did not gain the approval of the S.E.C. (US). The intended flotation foundered on their demands that the reinsurances be renegotiated to make it "acceptable", under S.E.C. regulations.

Zurich itself decided it would not, itself, acquire Anglo-Am, but let Centre Re acquire it, as a run-off, funded by its reinsurances but with no extra cash pumped in. Not unnaturally this means a reduced dividend, and Zurich still carrying the processing.

"NO, REALLY"

An occasional column of the unbelievable.
All contributions gratefully received

SWISS RE RELOCATION ON DESPITE MURDER

The murder that took place last month in Swiss Re's new tower in the City is not expected to halt the relocation of the company's 800 London staff to the new building, according to Swiss Re.

A spokeswoman for the City of London Police said the incident took place between 8 and 8.30am on 14 February on the sixth floor of the tower one of the floors that is still being fitted out.

James Kerlit is accused of killing Michael Bowen in the building where they worked as construction cleaners. Swiss Re is occupying floors 2-15 of the new tower and is looking to lease floors 15-34. New offices with resident ghost

POLLUTION UPDATE

GLOBAL WARMING NO ARGUMENT

Global warming isn't a theory, open to dispute, any more. It's here, and it's happening. Even your kindly editor can now grow figs that ripen in his English garden. Mention global warming to different people and you will get different reactions. Some think of the film *Waterworld* and scoff. Others think of the worst-case scenarios and panic. Scientists and reinsurers think of the latest data and worry.

More than 15 years since global warming broke into the mainstream public perception, the theory remains a deeply controversial subject, with arguments and counter arguments between scientists and politicians about how big a threat it is and what is to be done about it.

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The majority of scientists now agree that it is occurring, but politicians, governments and companies remain divided about what should be done.

The evidence for warming is now overwhelming. Over the past 100 years the global temperature has risen by around 0.6 degrees centigrade, according to the latest Intergovernmental Panel on Climate Change (IPCC) report about climate change, published in 2001. The report also claims that it is "very likely" (i.e.: there is a 95—99% chance) that the 1990s was the warmest decade and that 1998 was the warmest year, since 1861.The IPCC figures are based on a wide range of scientific measurements from all over the world that include temperature readings, satellite information, ice core data and tree ring measurements that combine to help to build up a picture of past and present climate conditions. Although carbon dioxide (CO_2) is the gas most commonly identified with the rise, there are a number of others, all connected with the growth in industrialisation that has taken place over the past century. These include methane, sulphur dioxide and nitrous oxide and are known as 'greenhouse gases'.

The IPCC report also claims that global concentrations of these gases have increased because of human activities. It predicts that over the period from 1900 to 2100 the global average temperature will increase by anything between 1.4 and 5.8 degrees centigrade. This will lead to increased rain, a decline in sea-ice and snow cover and the continued retreat of glaciers and the ice caps.

Differing scenarios

One reason for the divergence in estimates is that a major problem in trying to estimate the effects of global warming is the wide range of scenarios now available from different sources. In some, the effects will be small and take place over several centuries. In others, disaster is just around the corner and the situation is critical.

Simon Brown, climate extreme research manager at the UK Met Office's Hadley Centre, said: "There is no formal framework to assess predictions, although efforts are being made to create one. There are nine institutes around the world that agree on the bigger global aspects of warming, but not on the smaller, local, changes. As a result, so far risk reinsurance calculations will depend on the scale used."

The melting of the ice caps is one of the most widely discussed potential effects of global warming, although this will have a varying effect. The disappearance of the Arctic ice cap would have little impact on sea levels because, like an ice cube in a glass of water, it already displaces its own weight as it floats. However, the Greenland and Antarctic ice sheets and glaciers are mostly land based and their disappearance would raise sea levels, possibly by as much as 80 metres in the unlikely event of both melting completely. The effects on coastal community around the world would be catastrophic forcing countries to retreat inland. Even aft a small rise of 5 metres, many low-lying island nations in the Pacific, such as Tuva and the Marshall Islands, would actually vanish underwater. Cities vulnerable to future flooding include London, New Orleans, NE York and Miami, all of which would be affected by relatively small tidal increases.

Other effects would be just as potential disastrous. Scientists are currently examining the increasing amounts of fresh water that are entering the North Atlantic from the retreating glaciers and tundra of Greenland and Siberia. There is a fear that if enough cold, fresh water heads south into the area could shut down the Gulf Stream, which h shown signs of weakening over recent yea This would result in the terrible paradox that global warming could lead to local cooling for the UK and northern Europe, which although on the same latitude as southern Alaska, endure much milder winters thanks to the warmth provided by the Gulf Stream. If the current was turned off then winters in north-western Europe would be longer and colder than before.

Bill McGuire, director of the Benfield Hazard Research Centre, said: "If the Gulf Stream does shut down soon then we could see winters like those of 1962—63 or 1947, when there was snow on the ground for three months and the

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sea froze on the coastline. If it gets as bad as the Little Ice Age [in the 16th and 17th centuries] there may even be sea ice in the North Sea.

"We might see temperatures falling by four or five degree centigrade for northern Europe. There would be hazards like an increase in blizzards, while sea ice would be a danger to shipping and the North Sea oil rigs. There would also be affects on the economy, because we'd need more power in the winter. At the moment we're closing power stations — if we need more power in the future it might even start up the nuclear power station debate again."

It is also possible that global warming is causing weather patterns to shift. The Hadley Centre, which carries out research into climate change, released its latest report looking at the subject in December 2003. It claims that the number of winter storms that hit the UK every year has increased, while the number of similar storms that affect Iceland has decreased slightly. According to the report it is possible that the North Atlantic storm track is moving southwards, making the UK more vulnerable to severe storms with high winds, although this could be a part of a natural trend. Further studies are being carried out.

Health concerns

The potential threat from global warming does not end at flooding and storm damage. Swiss Re is currently carrying out a two-year research project into global warming with the United Nations Development Project and Harvard Medical School's centre for health and global. The project will look at the impact of global warming on human health. As different areas get hotter, then insects and animals carrying tropical infections will be able to migrate further making diseases like malaria and the West Nile virus more widespread. Public health systems that are unprepared for the arrival of tropical diseases could be overwhelmed.

There is a similar problem with the spread of tropical creatures. Several years ago a colony of termites was discovered in Cornwall, a species that the UK is entirely unfamiliar with. Insurance terms could have to evolve to keep pace with changes to the natural world.

A risk modeller's perspective on climate change

By Dr Peter Dailey, AIR Worldwide Corporation

Over the course of the Earth's history, the global climate has experienced many natural temperature fluctuations. In fact, based on long-term temperature records, extended periods of warming and cooling have been the norm. Observations over the past several decades indicate that the Earth is currently in a period of global warming. Global circulation models have made it increasingly clear that this recent warming trend is due at least in part to human influence. However, the extent of human influence on the current warming trend, at what rate it will continue, or whether it will continue at all is still unclear. The uncertainty is partly related to the fact that it is not yet known to what extent humans will intervene to correct this situation.

An issue of primary interest to (re)insurers and catastrophe modellers is the impact, if any, of global warming on the frequency and severity of storms. In the case of extratropical cyclones (ETCs) in the European region there is *a* growing body of evidence that both the frequency and severity of storms are increasing due to the current warming trend. Capturing climate trends in ETC catastrophe models is challenging, but can be accomplished. Traditionally, modellers have relied on statistical models developed from historical data to make estimates of future loss. However, due to the current warming trend, the complexity of these storm systems, and the incomplete and even misleading nature of data more than 50 years old, traditional modelling techniques will not provide an accurate view of future loss. For catastrophe modellers to capture the current warming trend and its potential impact on the most severe weather in Europe, models must incorporate the most recent and highest quality data set to get *a* detailed meteorological representation of the atmosphere.

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Chris Walker, managing director of Swiss Re's greenhouse gas risk solutions department, said: "Swiss Re deals with three main areas of the market: property and casualty; life; and corporate. Climate change affects all three. Changes in climate can allow diseases to hang around in areas where historically they have never been before. Our clients have to be informed how they can be better prepared for the effects."

Munich Re is another major reinsurer that is becoming increasingly concerned about the prospect of climate change. In its recent overview of the main events of 2003, it pointed to the European heat wave which claimed an estimated 20 000 lives as being a possible harbinger of the future. It also noted that the record temperatures that hit Germany from June to August 2003 corresponded to a 450-year event in climatological terms that, if the atmosphere continues to heat up, could become a 20-year event by 2020.

Commenting on the 2003 heat wave, Dr Gerhard Berz, head of Munich Re's geo risks research department, said: "We will have to get used to the fact that hot summers like the one we had in Europe in 2003 must be expected more frequently in the future. It is possible that they will have become more or less the norm by the middle of the century. The summer of 2003 was a summer of the future, so to speak.

"Warmer summers mean a rise in the intensity and frequency of severe weather events. A heated-up Mediterranean and a warm North Atlantic increase the risk that particularly strong low-pressure systems will form in the autumn and winter with torrential rain and extreme wind speeds."

Identifying the fact that global warming is occurring is one thing, but stopping it, let alone reversing it, is another. The Earth's atmosphere can be compared to a supertanker — it takes quite a while for any kind of course change to register and for the ship to start to move in a different direction. Similarly with amount of CO_2 and other greenhouse gases already in the atmosphere, global warming' take some time, perhaps centuries. The Hadley Centre estimates that eve CO_2 emissions were cut by 60% tomorrow, global temperature would continue to rise another 1 degree centigrade over the next hundred years before stabilising.

Efforts to address the situation h begun, but have run into political problems In 1997, the Kyoto climate summit laid dc a set of guidelines and agreements industrialised countries to follow in a bid cut down the amount of CO_2 being product by industrialised countries. The Kyoto Prtocol was complicated and followed negotiations that were often tortuous. However 2001 the current Bush administration pulled out of the protocol, claiming that trying to cut down on CO_2 emissions would be expensive for the US economy. Instead US government proposed voluntary cutbacks from companies. The *Washington Post* claims that the number of companies that have signed up for the government plan are a mere 50. Russia, Japan and Australia I also expressed worries about the economic cost of carrying out Kyoto.

Initial US denial that global warming is rising place has been replaced with the acceptance that it is occurring, but that it's a natural phenomenon. Other countries disagree, the UK government, among others, assert that it is a human phenomenon. In Deco 2003 ministers and officials from the countries that have signed up as parties to the United Nations Framework Convention on Climate Change gathered in Milan to discuss how to prepare for the Kyoto Protocol's coming into force. The debate continues.

The scenarios now available for the future of global warming suggest various degrees of woe for the world ahead. Which one is the eventual future still remains to be seen. What is for certain is that it will affect us, and therefore the insurance market. Pricing will have to change, and low lying coastal areas may become difficult or impossible to insure, as has housing built on river flood plains in the UK.

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Insurance Security Services
Insolvency Newsletter
Private & Confidential

BCCI CASE IS MOST EXPENSIVE

Just when you thought it was all over, history's biggest corporate scandal has resurfaced, as we have been reporting. In terms of time, and the amount that lawyers will make, it breaks all records. Almost 13 years after the £13 billion collapse of the **Bank of Credit & Commerce International**, the Bank of England is being dragged into court to defend its role in the drama.

On the face of it, the Old Lady of Threadneedle Street will need a lot of luck, and a large suspension of reality, when hearings begin.

After all, an earlier inquiry by Lord Justice Bingham condemned the Bank's record as 'a tragedy of errors, misunderstandings and failures of communication'.

Given that BCCI was insolvent from 1975, five years before its first UK licence, the Bank would certainly have had its work cut out to defend a charge of negligence.

But BCCI's liquidator, accountant Deloitte & Touche, cannot sue for negligence, since Parliament granted the Old Lady immunity from such lawsuits. *Continued on page 11*

EQUITABLE: THE PAIN GOES ON

OK, we have the report by the Scottish judge Lord Penrose into the beleaguered firm, which came close to bankruptcy after mishandling special policies with guaranteed rates of return. His findings, which took more than two years, are crucial for the more than a million policyholders seeking compensation for the loss of their savings. Which they're not going to get.

Lord Penrose is found some evidence of regulatory failure throughout the 1990s, when the Department of Trade and Industry and the Treasury were directly responsible for regulating the Society. Policyholders hoped that this could open the door for compensation from the Government, and have been disappointed.

Continued on page 8

FAT LADY STILL SINGING

You know the old saw about the show ain't over until ....

Amazing how many companies are still claiming they are solvent, and able to stay out of liquidation. This is essential, of course, if the directors are to keep voting themselves pay rises. Liquidators pay themselves well, but don't usually keep on the directors. They have been known to sue them for helping the company to go bust. Not often enough, in our view. *Continued on page 2*

INSIDE

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